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SUBJECT: TURKEY: WORLD'S FASTEST GROWING ECONOMY

11. (U) Summary: Turkey's real GDP grew by 8.9% in 2004, surpassing expectations and making Turkey one of the fastest growing economies in the world -- if not the fastest growing. A 14% increase in domestic demand was driven by the private sector and evenly balanced between consumption and investment growth. In dollar terms, GDP per capita jumped 22.7% to \$4,187 -- a record high for Turkey. However impressive, such rates of growth cannot be sustained unless Turkey continues and deepens its reform process. End Summary.

12. (U) The State Institute for Statistics (SIS) announced March 31 that final 2004 GDP reached 430.5 billion Turkish Lira (USD 301.0 billion) in current prices, an 8.9% real increase from 2003. Reflecting positive net factor flows, GNP also grew 9.9%. This beat even the most optimistic market economists' expectations, which averaged 7.8% for GDP and 8.5% for GNP. The GOT had originally set a 5% GNP growth target for 2004, which was revised to 10% later in the year. This data brought per capita GDP to USD 4,187, from USD 3,412 in 2003. According to State Minister Babacan, per capita income was USD 7,736 on a purchasing power parity (PPP) basis, a record high for Turkey.

13. (U) Growth was driven by the private sector and was evenly-balanced between consumption and investment. Private sector investment grew by 45.5% and private consumption by 10.1%, driving a 14.1% increase in domestic demand. Exports grew by 12.5%, while imports increased 24.7%. By sector, the highest growth contribution came from trading, which grew 12.8%. The other two fastest growing sectors were industry (9.4%) and business and personal services (8.0%). One of the lowest contributions came from the agriculture sector, which registered only a 2.0 percent increase for the year as a whole, despite a 9.4% growth in the final quarter. The lowest increases were in the financial services (1.1%), and public services (1.2%) sectors.

14. (U) Following the data release, both State Minister Ali Babacan and Deputy Prime Minister Abdullatif Sener praised the AKP government's economic performance to the press. Babacan said the 2004 growth rate was the highest since 1966, and the PPP basis per capita income of USD 7,736 was a record for Turkey. Babacan also noted that growth was driven by the private sector, and not based on a monetary or fiscal stimulus. DPM Sener said the 2004 growth rate showed AKP government's success in implementation of reforms. He noted that 2004 private sector investment expenditure grew 45.5%, while public sector investment fell 4.5%. Sener also pointed out that in 2004 the economy created 649,000 new jobs.

15. (SBU) Comment: Turkish officials are rightly proud both of the growth rate and of the fact that it is private sector-led. However, there is a risk that last year's strong performance will contribute to complacency on the part of policymakers in pursuing the reforms required to sustain the very high levels of growth over many years needed for Turkish incomes to one day converge with the European average. To break out of Turkey's historical patterns of busts following booms, the government needs to make faster progress in reducing the role of government in the economy through privatization and deregulation, as well as in maintaining its commitment to sound monetary and fiscal policies. Turkey is not there yet.

16. (U) Detailed data is available at the SIS website: <http://www.die.gov.tr/ENGLISH/index.html>  
Edelman